

NEWTON COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

# **NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants  
(a professional corporation)**

**117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910**

## **NEWS RELEASE**

Nolte, Cornman & Johnson P.C. today released an audit report on the Newton Community School District in Newton, Iowa.

The District's revenues totaled \$30,747,372 for the year ended June 30, 2006, a 2.7 percent increase from the prior year. Revenues included \$13,456,347 in unrestricted state grants, \$11,769,943 in local tax, charges for service of \$2,025,235, operating grants, contributions, and restricted interest of \$3,114,233 and \$377,301 in other general revenues.

Expenses for district operations totaled \$29,988,579 a 5.1 percent increase from the prior year. Expenses included \$11,290,696 for regular instruction, \$4,002,632 for special instruction and \$3,419,779 for operation and maintenance of plant services.

A copy of the audit report is available for review in the District Secretary's Office, the Office of Auditor of State, and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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Newton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2005 election)</b>		
Cathi Fouts	President	2005
Greg Davis	Vice President	2007
Jerry Sawin	Board Member	2005
Don Poynter	Board Member	2005
Dennis Combs	Board Member	2006
Fred Chabot	Board Member	2006
Donna Cook	Board Member	2007
<b>Board of Education (After September 2005 election)</b>		
Cathi Fouts	President	2008
Don Poynter	Vice President	2008
Greg Davis	Board Member	2007
Jerry Sawin	Board Member	2008
Dennis Combs	Board Member	2006
Fred Chabot	Board Member	2006
Donna Cook	Board Member	2007
<b>School Officials</b>		
Steve McDermott	Superintendent	2006
Jackie Black	District Secretary/Treasurer	2006
Tim Campbell	Attorney	Indefinite
Terry Rickers	Attorney	Indefinite
Alhers and Cooney P.C.	Attorney	Indefinite

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Newton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Newton Community School District, Newton, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Newton Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2006 on our consideration of the Newton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Members American Institute & Iowa Society of Certified Public Accountants

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Newton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

November 8, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Newton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$24,058,810 in fiscal year 2005 to \$24,690,216 in fiscal year 2006, while General Fund expenditures increased from \$23,987,353 in fiscal 2005 to \$25,220,851 in fiscal 2006.
- The District's General Fund undesignated, unreserved fund balance decreased from \$2,812,015 in fiscal 2005 to \$2,260,011 in fiscal 2006 due to planned expenditures.
- The Capital Improvement project at Aurora Heights is nearly complete. The final site work is planned for the spring of 2007. The successful Local Option Sales and Services Tax election May 6, 2003 provided monies to fund these capital improvement projects as well as Woodrow Wilson Elementary renovations. The district began receiving sales tax revenue from the LOST tax in February 2004. The LOST tax will also provide monies for retirement of outstanding bonds previously issued for school infrastructure purposes.
- Improved interest rates and more available cash over the past year have resulted in an increase of interest earnings in the General Fund alone from \$70,947 in fiscal 2005 to \$140,970 in fiscal 2006.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Newton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Newton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Newton Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

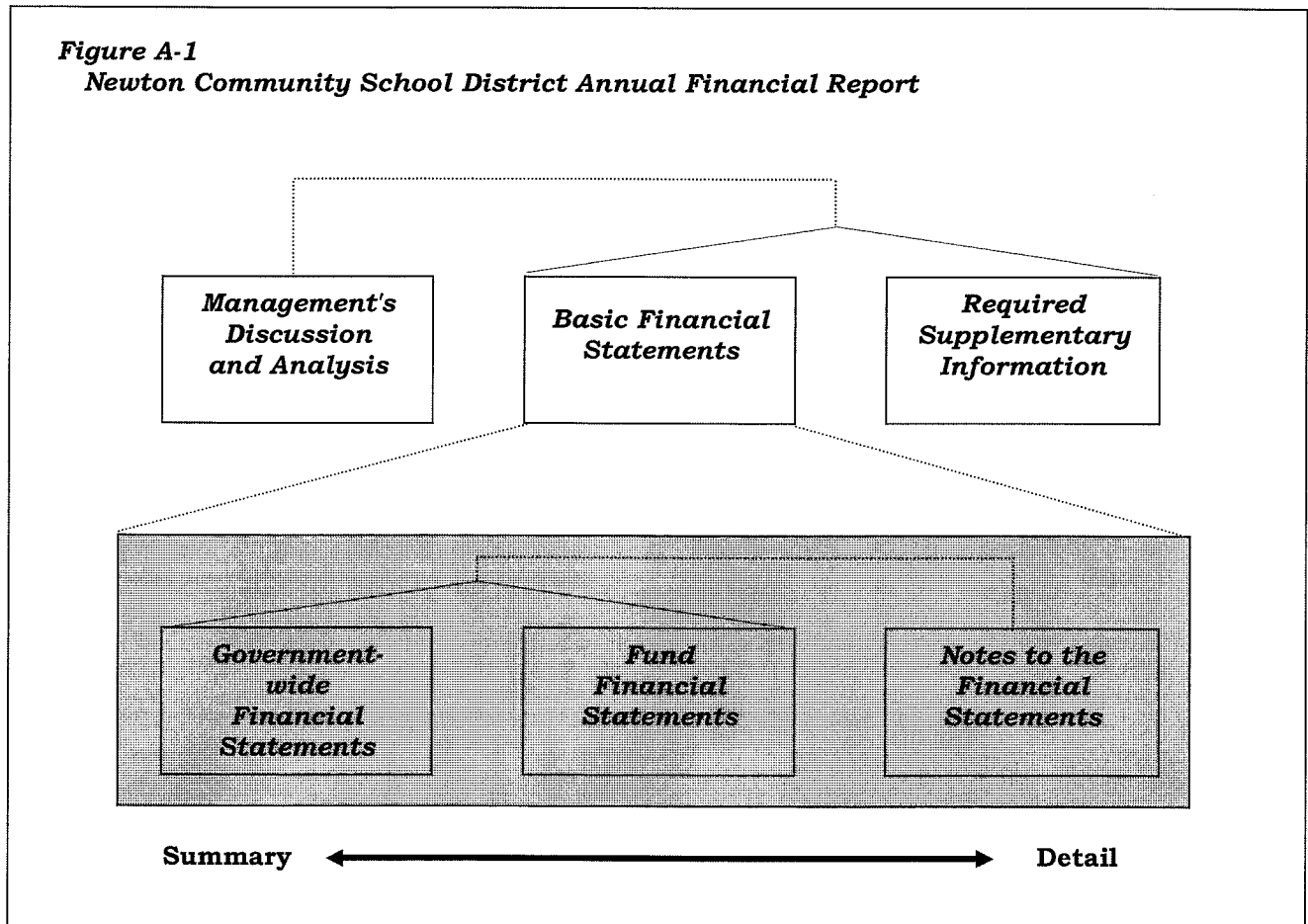




Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the

District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 19,478,410	21,581,552	63,963	50,547	19,542,373	21,632,099	-9.66%
Capital assets	31,950,260	30,633,195	72,734	76,904	32,022,994	30,710,099	4.28%
Total assets	51,428,670	52,214,747	136,697	127,451	51,565,367	52,342,198	-1.48%
Long-term obligations	20,460,534	21,964,568	0	0	20,460,534	21,964,568	-6.85%
Other liabilities	10,190,414	10,214,703	4,595	12,834	10,195,009	10,227,537	-0.32%
Total liabilities	30,650,948	32,179,271	4,595	12,834	30,655,543	32,192,105	-4.77%
Net assets:							
Invested in capital assets, net of related debt	15,584,700	14,605,996	72,734	76,904	15,657,434	14,682,900	6.64%
Restricted	2,545,719	2,283,978	0	0	2,545,719	2,283,978	11.46%
Unrestricted	2,647,303	3,145,502	59,368	37,713	2,706,671	3,183,215	-14.97%
Total net assets	\$ 20,777,722	20,035,476	132,102	114,617	20,909,824	20,150,093	3.77%

The District's combined net assets increased by 3.77%, or \$759,731 over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$261,741, or 11.46% over the prior year. The increase was primarily a result of the District increase in the restricted fund balances.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$476,544 or 14.97%. This decrease in unrestricted net assets was primarily a result of the District General Fund balance declining during the year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,228,033	1,297,171	797,202	811,201	2,025,235	2,108,372	-3.94%
Operating grants and contributions and restricted interest	2,590,064	2,408,979	524,169	456,332	3,114,233	2,865,311	8.69%
General revenues:							
Property tax	9,778,410	9,911,828	0	0	9,778,410	9,911,828	-1.35%
Income surtax	430,405	416,242	0	0	430,405	416,242	3.40%
Local option sales and services tax	1,561,128	1,378,681	0	0	1,561,128	1,378,681	13.23%
Unrestricted state grants	13,456,347	13,026,904	0	0	13,456,347	13,026,904	3.30%
Other	377,301	240,059	587	673	377,888	240,732	56.97%
Total revenues	29,421,688	28,679,864	1,321,958	1,268,206	30,743,646	29,948,070	2.66%
Program expenses:							
Governmental activities:							
Instructional	17,609,347	17,196,090	0	0	17,609,347	17,196,090	2.40%
Support services	8,916,497	7,234,904	0	0	8,916,497	7,234,904	23.24%
Non-instructional programs	7,357	18,262	1,305,411	1,276,084	1,312,768	1,294,346	1.42%
Other expenses	2,149,967	2,798,917	0	0	2,149,967	2,798,917	-23.19%
Total expenses	28,683,168	27,248,173	1,305,411	1,276,084	29,988,579	28,524,257	5.13%
Changes in net assets before other financing sources(uses)	738,520	1,431,691	16,547	(7,878)	755,067	1,423,813	-46.97%
Other financing sources(uses), net	3,726	4,054	938	(1,982)	4,664	2,072	100.00%
Changes in net assets	742,246	1,435,745	17,485	(9,860)	759,731	1,425,885	-46.72%
Beginning Net Assets	20,035,476	18,599,731	114,617	124,477	20,150,093	18,724,208	7.62%
Ending Net Assets	\$ 20,777,722	20,035,476	132,102	114,617	20,909,824	20,150,093	3.77%

In fiscal 2006, property tax and unrestricted state grants account for 79% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99% of the revenue from business type activities.

The District's total revenues were approximately \$30.74 million of which approximately \$29.42 million was for governmental activities and while approximately \$1.32 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.66% increase in revenues and a 5.13% increase in expenses. Unrestricted state grants increased \$429,443 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

### Governmental Activities

Revenues for governmental activities were \$29,421,688 and expenses were \$28,683,168. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 17,609,347	14,809,346
Support services	8,916,497	8,872,136
Non-instructional programs	7,357	7,357
Other expenses	2,149,967	1,176,232
Totals	<u>\$ 28,683,168</u>	<u>24,865,071</u>

- The cost financed by users of the District's programs was \$1,228,033.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,590,064.
- The net cost of governmental activities was financed with \$9,778,410 in local property tax, \$430,405 in income surtax, \$1,561,128 in local option sales and services tax, \$13,456,347 in unrestricted state grants and \$377,301 in interest income.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$1,321,958 and expenses were \$1,305,411. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Newton Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$9,011,776, below last year's ending fund balances of \$11,122,579. However, the primary reason for the decrease in combined fund balances in fiscal 2006 is due to increased expenditures for capital construction at Woodrow Wilson and Aurora Heights Elementaries.

### **Governmental Fund Highlights**

- The District's decline in its General Fund financial position from \$2,824,287 in fiscal 2005 to \$2,303,223 in fiscal 2006 is the product of many factors. Revenues increased due to an increase in state aid funding. The District's increase in General Fund expenditures was primarily due to salary settlement increases and normal increased operating costs.
- The Physical Plant and Equipment Levy Fund balance increased from \$1,762,364 in fiscal 2005 to \$2,082,290 in fiscal 2006 due to a decrease in capital improvement expenditures compared to the prior year. The District follows a five-year capital improvement plan that is reviewed annually.
- The Capital Projects Fund balance decreased from \$4,446,054 to \$2,507,117 due to capital construction improvements at Woodrow Wilson Elementary, which is now complete, and Aurora Heights Elementary, which began in the Spring of 2005 and is nearing completion.

- The Debt Service Fund balance increased from \$1,474,057 to \$1,495,536. Included in the fund balance at year end is a required reserve of \$875,000 as part of the issuance of the sales tax revenue bonds.
- The Management Fund balance increased from \$383,162 to \$408,937. The Management Fund expenditures include early retirement benefits, property and liability insurance coverages, worker's compensation insurance and unemployment benefits. The District levies for retirement benefits the budget year following the expense.
- The Student Activity Fund balance decreased slightly from \$232,655 to \$214,673 due to the variance of student activities from year to year.

### **Proprietary Fund Highlights**

The Proprietary Fund net assets increased from \$114,617 at June 30, 2005 to \$132,102 at June 30, 2006, representing a increase of 15.3%. The increase in revenues was more than the cost to provide student lunches resulting in the increase of net assets.

### **BUDGETARY HIGHLIGHTS**

The District's revenues were \$229,328 less than budgeted revenues, a variance of less than one percent. The most significant variance resulted from the District receiving less in local source revenues than originally anticipated.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2006, the District had invested \$32 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 4.28% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,202,716.

The original cost of the District's capital assets was \$57.1 million. Governmental funds account for \$56.5 million with the remainder of \$0.5 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$3,354,511 at June 30, 2006, compared to \$4,047,759 reported at June 30, 2005. This significant decrease resulted from the capital improvements paid by the capital projects fund for additions and improvements on Woodrow Wilson Elementary, which is complete, and Aurora Heights Elementary, which began in the Spring of 2005 and is nearing completion.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 1,124,348	1,124,348	0	0	1,124,348	1,124,348	0.00%
Construction in progress	3,354,511	4,047,759	0	0	3,354,511	4,047,759	-17.13%
Buildings	25,551,357	23,548,946	0	0	25,551,357	23,548,946	8.50%
Land improvements	933,363	1,006,450	0	0	933,363	1,006,450	-7.26%
Machinery and equipment	986,681	905,692	72,734	76,904	1,059,415	982,596	7.82%
Total	\$ 31,950,260	30,633,195	72,734	76,904	32,022,994	30,710,099	4.28%

### Long-Term Debt

At June 30, 2006, the District had \$20,460,534 in general obligation and other long-term debt outstanding. This represents a decrease of 6.85% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$13,095,000 at June 30, 2006.

The District also had outstanding revenue bonds of \$7,120,000 at June 30, 2006.

The District had outstanding early retirement of \$163,655 at June 30, 2006.

The District had outstanding compensated absences of \$81,879 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 13,095,000	13,900,000	-5.79%
Revenue bonds	7,120,000	7,880,000	100.00%
Early retirement	163,655	106,475	53.70%
Compensated absences	81,879	78,093	4.85%
Totals	\$ 20,460,534	21,964,568	-6.85%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future:

- The District's enrollment increased slightly in fiscal 2006 by 5.3 students. Under Iowa's school funding formula, District fund is highly dependent upon a District's enrollment. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- In 2004, the State Legislature set a 4% allowable growth for 2005-2006, which resulted in a \$190 per student increase. The 2005-2006 regular program district cost per pupil is \$4,931. For the 2006-2007 school years, the allowable growth was also set at 4%.

- The Newton Community is experiencing an economic transition with the purchase of Maytag Corporation by Whirlpool Corporation. Specific concerns of the loss of student enrollment, employment and property tax valuation are areas deserving close monitoring.
- The \$70 million Iowa Speedway Project is nearly complete and will begin events in September 2006. Projections on the increased Local Option Sales and Services Tax revenue this event center will generate remain encouraging.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jackie Black, Director of Business Affairs, Newton Community School District, 807 S 6<sup>th</sup> Ave W, Newton, Iowa, 50208.



## BASIC FINANCIAL STATEMENTS

NEWTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents:	\$ 8,558,758	21,656	8,580,414
Receivables:			
Property tax:			
Delinquent	117,695	0	117,695
Succeeding year	9,765,936	0	9,765,936
Income surtax	429,433	0	429,433
Accounts	0	753	753
Due from other governments	566,850	0	566,850
Inventories	39,738	41,554	81,292
Capital assets, net of accumulated depreciation(Note 4)	31,950,260	72,734	32,022,994
<b>TOTAL ASSETS</b>	<b>51,428,670</b>	<b>136,697</b>	<b>51,565,367</b>
<b>LIABILITIES</b>			
Accounts payable	121,741	0	121,741
Salaries and benefits payable	149,524	0	149,524
Accrued interest payable	153,213	0	153,213
Deferred revenue:			
Succeeding year property tax	9,765,936	0	9,765,936
Other	0	4,595	4,595
Long-term liabilities(Note 5):			
Portion due within one year:			
Bonds payable	840,000	0	840,000
Revenue bonds payable	780,000	0	780,000
Early retirement payable	91,739	0	91,739
Compensated absences payable	81,879	0	81,879
Portion due after one year:			
Bonds payable	12,255,000	0	12,255,000
Revenue bonds payable	6,340,000	0	6,340,000
Early retirement payable	71,916	0	71,916
<b>TOTAL LIABILITIES</b>	<b>30,650,948</b>	<b>4,595</b>	<b>30,655,543</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	15,584,700	72,734	15,657,434
Restricted for:			
Talented and gifted	3,474	0	3,474
Management levy	245,282	0	245,282
Physical plant and equipment levy	2,082,290	0	2,082,290
Other special revenue purposes	214,673	0	214,673
Unrestricted	2,647,303	59,368	2,706,671
<b>TOTAL NET ASSETS</b>	<b>\$ 20,777,722</b>	<b>132,102</b>	<b>20,909,824</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 11,290,696	214,913	1,602,527	(9,473,256)	0	(9,473,256)
Special instruction	4,002,632	174,824	0	(3,827,808)	0	(3,827,808)
Other instruction	2,316,019	807,737	0	(1,508,282)	0	(1,508,282)
	<u>17,609,347</u>	<u>1,197,474</u>	<u>1,602,527</u>	<u>(14,809,346)</u>	<u>0</u>	<u>(14,809,346)</u>
Support services:						
Student services	1,172,937	0	0	(1,172,937)	0	(1,172,937)
Instructional staff services	830,849	0	0	(830,849)	0	(830,849)
Administration services	2,502,921	0	0	(2,502,921)	0	(2,502,921)
Operation and maintenance of plant services	3,419,779	0	0	(3,419,779)	0	(3,419,779)
Transportation services	990,011	30,559	13,802	(945,650)	0	(945,650)
	<u>8,916,497</u>	<u>30,559</u>	<u>13,802</u>	<u>(8,872,136)</u>	<u>0</u>	<u>(8,872,136)</u>
Non-instructional programs:						
Food service operations	4,588	0	0	(4,588)	0	(4,588)
Community service and education operations	2,769	0	0	(2,769)	0	(2,769)
	<u>7,357</u>	<u>0</u>	<u>0</u>	<u>(7,357)</u>	<u>0</u>	<u>(7,357)</u>
Other expenditures:						
Facilities acquisitions	343,128	0	0	(343,128)	0	(343,128)
Long-term debt interest	833,104	0	0	(833,104)	0	(833,104)
AEA flowthrough	973,735	0	973,735	0	0	0
	<u>2,149,967</u>	<u>0</u>	<u>973,735</u>	<u>(1,176,232)</u>	<u>0</u>	<u>(1,176,232)</u>
Total governmental activities	28,683,168	1,228,033	2,590,064	(24,865,071)	0	(24,865,071)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	1,305,411	797,202	524,169	0	15,960	15,960
Total business-type activities	<u>1,305,411</u>	<u>797,202</u>	<u>524,169</u>	<u>0</u>	<u>15,960</u>	<u>15,960</u>
Total	<u>\$ 29,988,579</u>	<u>2,025,235</u>	<u>3,114,233</u>	<u>(24,865,071)</u>	<u>15,960</u>	<u>(24,849,111)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 8,025,858	0	8,025,858
Capital outlay				625,231	0	625,231
Debt service				1,127,321	0	1,127,321
Income surtax				430,405	0	430,405
Local option sales and services tax				1,561,128	0	1,561,128
Unrestricted state grants				13,456,347	0	13,456,347
Unrestricted investment earnings				377,301	587	377,888
Gain on sale of assets				3,726	0	3,726
				<u>25,607,317</u>	<u>587</u>	<u>25,607,904</u>
Total general revenues				25,607,317	587	25,607,904
Changes in net assets before other financing sources(uses)				742,246	16,547	758,793
Other Financing Sources(Uses):						
Loss on disposal of capital assets				0	(282)	(282)
Contributed capital				0	1,220	1,220
Total Other Financing Sources(Uses)				<u>0</u>	<u>938</u>	<u>938</u>
Changes in net assets				742,246	17,485	759,731
Net assets beginning of year				<u>20,035,476</u>	<u>114,617</u>	<u>20,150,093</u>
Net assets end of year				<u>\$ 20,777,722</u>	<u>132,102</u>	<u>20,909,824</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Nonmajor Student Activity Fund	Total
<b>ASSETS</b>							
Cash and cash equivalents	\$ 1,962,000	540,361	2,075,044	2,284,209	1,482,471	214,673	8,558,758
Receivables:							
Property tax							
Delinquent	90,095	7,289	7,246	0	13,065	0	117,695
Succeeding year	7,572,802	650,000	624,019	0	919,115	0	9,765,936
Income surtax	429,433	0	0	0	0	0	429,433
Due from other governments	322,207	0	0	244,643	0	0	566,850
Inventories	39,738	0	0	0	0	0	39,738
<b>TOTAL ASSETS</b>	<b>\$ 10,416,275</b>	<b>1,197,650</b>	<b>2,706,309</b>	<b>2,528,852</b>	<b>2,414,651</b>	<b>214,673</b>	<b>19,478,410</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ 100,006	0	0	21,735	0	0	121,741
Salaries and benefits payable	10,811	138,713	0	0	0	0	149,524
Deferred revenue:							
Succeeding year property tax	7,572,802	650,000	624,019	0	919,115	0	9,765,936
Income surtax	429,433	0	0	0	0	0	429,433
<b>Total liabilities</b>	<b>8,113,052</b>	<b>788,713</b>	<b>624,019</b>	<b>21,735</b>	<b>919,115</b>	<b>0</b>	<b>10,466,634</b>
Fund balances:							
Reserved for:							
Debt service	0	0	0	0	1,495,536	0	1,495,536
Talented and gifted	3,474	0	0	0	0	0	3,474
Inventories	39,738	0	0	0	0	0	39,738
Unreserved:							
Undesignated:							
General	2,260,011	0	0	0	0	0	2,260,011
Management levy	0	408,937	0	0	0	0	408,937
Physical plant and equipment levy	0	0	2,082,290	0	0	0	2,082,290
Capital projects	0	0	0	2,507,117	0	0	2,507,117
Other special revenue purposes	0	0	0	0	0	214,673	214,673
<b>Total fund balances</b>	<b>2,303,223</b>	<b>408,937</b>	<b>2,082,290</b>	<b>2,507,117</b>	<b>1,495,536</b>	<b>214,673</b>	<b>9,011,776</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 10,416,275</b>	<b>1,197,650</b>	<b>2,706,309</b>	<b>2,528,852</b>	<b>2,414,651</b>	<b>214,673</b>	<b>19,478,410</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 YEAR ENDED JUNE 30, 2006

**Total fund balances of governmental funds (page 16)** \$ 9,011,776

***Amounts reported for governmental activities in the  
statement of net assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds. 31,950,260

Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. 429,433

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. (153,213)

Long-term liabilities, including bonds payable, revenue bonds payable, early retirement payable, and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (20,460,534)

**Net assets of governmental activites (page 14)** \$ 20,777,722

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Nonmajor Student Activity Fund	Total
<b>REVENUES:</b>							
Local sources:							
Local tax	\$ 7,839,043	599,366	625,231	1,561,128	1,127,322	0	11,752,090
Tuition	389,737	0	0	0	0	0	389,737
Other	416,761	66,022	71,756	81,033	64,295	515,730	1,215,597
State sources	15,437,496	472	451	0	813	0	15,439,232
Federal sources	607,179	0	0	0	0	0	607,179
Total revenues	24,690,216	665,860	697,438	1,642,161	1,192,430	515,730	29,403,835
<b>EXPENDITURES:</b>							
Current:							
Instruction:							
Regular instruction	10,974,807	328,078	0	0	0	0	11,302,885
Special instruction	3,999,652	18,375	0	0	0	0	4,018,027
Other instruction	1,759,168	8,983	0	0	0	533,712	2,301,863
	16,733,627	355,436	0	0	0	533,712	17,622,775
Support services:							
Student services	1,141,223	17,119	0	0	0	0	1,158,342
Instructional staff services	670,877	3,958	98,388	51,309	0	0	824,532
Administration services	2,460,171	32,048	167	75	0	0	2,492,461
Operation and maintenance of plant services	2,408,370	186,045	65,598	0	0	0	2,660,013
Transportation services	830,079	40,891	156,142	0	0	0	1,027,112
	7,510,720	280,061	320,295	51,384	0	0	8,162,460
Non-instructional programs:							
Food service operations	0	4,588	0	0	0	0	4,588
Community service and education operations	2,769	0	0	0	0	0	2,769
	2,769	4,588	0	0	0	0	7,357
Other expenditures:							
Facilities acquisitions	0	0	247,217	2,288,464	0	0	2,535,681
Long-term debt:							
Principal	0	0	0	0	1,565,000	0	1,565,000
Interest and fiscal charges	0	0	0	0	847,201	0	847,201
AEA flowthrough	973,735	0	0	0	0	0	973,735
	973,735	0	247,217	2,288,464	2,412,201	0	5,921,617
Total expenditures	25,220,851	640,085	567,512	2,339,848	2,412,201	533,712	31,714,209
Excess(deficiency) of revenues over(under) expenditures	(530,635)	25,775	129,926	(697,687)	(1,219,771)	(17,982)	(2,310,374)
Other financing sources(uses):							
Transfer in	0	0	0	0	1,241,250	0	1,241,250
Transfer out	0	0	0	(1,241,250)	0	0	(1,241,250)
Sale of equipment	9,571	0	190,000	0	0	0	199,571
Total other financing sources(uses)	9,571	0	190,000	(1,241,250)	1,241,250	0	199,571
Net change in fund balances	(521,064)	25,775	319,926	(1,938,937)	21,479	(17,982)	(2,110,803)
Fund balance beginning of year	2,824,287	383,162	1,762,364	4,446,054	1,474,057	232,655	11,122,579
Fund balance end of year	\$ 2,303,223	408,937	2,082,290	2,507,117	1,495,536	214,673	9,011,776

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ (2,110,803)

**Amounts reported for governmental activities in the  
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:

Expenditures for capital assets	\$ 2,509,298	
Depreciation expense	(1,192,233)	1,317,065

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 17,853

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Repaid	1,565,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 14,097

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ (57,180)	
Compensated Absences	(3,786)	(60,966)

Changes in net assets of governmental activities (page 15) \$ 742,246

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 21,656
Receivables:	
Accounts	753
Inventories	41,554
Capital assets, net of accumulated depreciation (Note 4)	72,734
TOTAL ASSETS	<u>136,697</u>
LIABILITIES	
Deferred revenue:	
Other	4,595
TOTAL LIABILITIES	<u>4,595</u>
NET ASSETS	
Investment in capital assets	72,734
Unrestricted	59,368
TOTAL NET ASSETS	<u>\$ 132,102</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



NEWTON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 797,202
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	469,125
Benefits	105,782
Services	4,395
Supplies	715,626
Depreciation	10,483
TOTAL OPERATING EXPENSES	<u>1,305,411</u>
OPERATING LOSS	<u>(508,209)</u>
NON-OPERATING REVENUES:	
State sources	14,280
Federal sources	509,889
Interest income	587
TOTAL NON-OPERATING REVENUES	<u>524,756</u>
Change in net assets before other financing sources(uses)	16,547
OTHER FINANCING SOURCES(USES):	
Loss on asset disposal	(282)
Capital contribution	1,220
TOTAL OTHER FINANCING SOURCES(USES)	<u>938</u>
Change in net assets	17,485
Net assets beginning of year	<u>114,617</u>
Net assets end of year	<u><u>\$ 132,102</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 772,078
Cash received from miscellaneous operating activities	18,202
Cash payments to employees for services	(574,907)
Cash payments to suppliers for goods or services	(659,040)
Net cash used in operating activities	<u>(443,667)</u>
Cash flows from non-capital financing activities:	
State grants received	14,280
Federal grants received	444,987
Net cash provided by non-capital financing activities	<u>459,267</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	(5,375)
Net cash used in capital financing activities	<u>(5,375)</u>
Cash flows from investing activities:	
Interest on investments	587
Net cash provided by investing activities	<u>587</u>
Net increase in cash and cash equivalents	10,812
Cash and cash equivalents at beginning of year	<u>10,844</u>
Cash and cash equivalents at end of year	<u>\$ 21,656</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (508,209)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	64,902
Depreciation	10,483
Increase in inventories	(3,921)
Decrease in accounts receivable	1,317
Decrease in deferred revenue	(8,239)
Net cash used in operating activities	<u>\$ (443,667)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 21,656</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$64,902.

During the year ended June 30, 2006, the Nutrition Fund received \$1,220 in contributed capital from Capital Projects.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Newton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Newton and Kellogg, Iowa, and the predominate agricultural territory in Jasper County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Newton Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Newton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Jasper County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Statement of Net Assets presents the District's

nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Management Fund is utilized to account for the District's early retirement benefits, workmen's comprehensive claims, and payments for the District's property insurance.

The Physical Plant and Equipment Levy Fund is utilized to account for major equipment purchases and capital improvements.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment:	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial

statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.



At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust and certificates of deposit as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 8,050,886</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured and are held by the District in the District's name. Certificates are stated at fair value.

At June 30, 2006, the District had investments in Certificates of Deposit maturing over one year as follows:

	<u>Fair Value</u>
Certificates of Deposit	<u>\$ 877,931</u>

### (3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 1,241,250</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

#### (4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,124,348	0	0	1,124,348
Construction in progress	4,047,759	2,150,758	2,844,006	3,354,511
Total capital assets not being depreciated	5,172,107	2,150,758	2,844,006	4,478,859
Capital assets being depreciated:				
Buildings	33,579,296	2,883,185	250,000	36,212,481
Land improvements	2,734,098	2,616	0	2,736,714
Machinery and equipment	13,113,818	512,590	469,410	13,156,998
Total capital assets being depreciated	49,427,212	3,398,391	719,410	52,106,193
Less accumulated depreciation for:				
Buildings	10,030,350	685,774	55,000	10,661,124
Land improvements	1,727,648	75,703	0	1,803,351
Machinery and equipment	12,208,126	430,756	468,565	12,170,317
Total accumulated depreciation	23,966,124	1,192,233	523,565	24,634,792
Total capital assets being depreciated, net	25,461,088	2,206,158	195,845	27,471,401
Governmental activities capital assets, net	\$ 30,633,195	4,356,916	3,039,851	31,950,260
Business-type activities:				
Machinery and equipment	\$ 517,396	6,595	1,744	522,247
Less accumulated depreciation	440,492	10,483	1,462	449,513
Business-type activities capital assets, net	\$ 76,904	(3,888)	282	72,734

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 231,663
Special	7,760
Other	29,132
Support services:	
Student	2,595
Instructional staff	7,223
Administration	8,726
Operation and maintenance of plant	764,187
Transportation	140,947
Total governmental activities depreciation expense	1,192,233
Business-type activities:	
Food services	\$ 10,483

## (5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 13,900,000	0	805,000	13,095,000	840,000
Revenue bonds	7,880,000	0	760,000	7,120,000	780,000
Early retirement	106,475	258,713	201,533	163,655	91,739
Compensated absences	78,093	81,879	78,093	81,879	81,879
Total	\$ 21,964,568	340,592	1,844,626	20,460,534	1,793,618

### Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year	Bond Issue of August 1, 1998			Bond Issue of January 1, 1999			Total	
Ending June 30,	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2007	4.50 %	\$ 370,000	260,715	4.15 %	\$ 470,000	317,600	840,000	578,315
2008	4.50	390,000	244,065	4.15	490,000	298,095	880,000	542,160
2009	4.50	405,000	226,515	4.15	515,000	277,760	920,000	504,275
2010	4.50	425,000	208,290	4.15	540,000	256,387	965,000	464,677
2011	4.50	445,000	189,165	4.20	565,000	233,978	1,010,000	423,143
2012	4.50	465,000	169,140	4.25	590,000	210,247	1,055,000	379,387
2013	4.50	485,000	148,215	4.25	615,000	185,173	1,100,000	333,388
2014	4.50	510,000	126,390	4.40	645,000	159,035	1,155,000	285,425
2015	4.50	530,000	103,440	4.40	675,000	130,655	1,205,000	234,095
2016	4.50	555,000	79,590	4.50	705,000	100,955	1,260,000	180,545
2017	4.50	585,000	54,615	4.60	735,000	69,230	1,320,000	123,845
2018	4.60	615,000	28,290	4.60	770,000	35,420	1,385,000	63,710
Total		\$ 5,780,000	1,838,430		\$ 7,315,000	2,274,535	\$ 13,095,000	4,112,965

### Revenue Bonds Payable

Details of the District's June 30, 2006 revenue bonded indebtedness are as follows:

Year	Bond Issue of February 1, 2004			
Ending June 30,	Interest Rates	Principal	Interest	Total
2007	2.95 %	\$ 780,000	210,040	990,040
2008	2.95	805,000	187,030	992,030
2009	2.95	835,000	163,282	998,282
2010	2.95	865,000	138,650	1,003,650
2011	2.95	900,000	113,133	1,013,133
2012	2.95	935,000	86,583	1,021,583
2013	2.95	980,000	59,000	1,039,000
2014	2.95	1,020,000	30,090	1,050,090
Total		\$ 7,120,000	987,808	8,107,808

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$865,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

#### Early Retirement

The District offers a voluntary early retirement plan to its certified employees and administration. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each employee's base salary, depending on the individual's classification, calculated by using the current year salary schedule, less any other additional pay. In addition, a portion of unused sick leave is included in the early retirement stipend. Early retirement benefits expensed during the year ended June 30, 2006 totaled \$201,533. The cost of early retirement payments expected to liquidated currently are recorded as a liability of the government-wide financial statements representing the District's commitment to fund non-current early retirement of \$163,655.

#### **(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$965,158, \$910,602 and \$899,320 respectively, equal to the required contributions for each year.

**(7) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), and Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, disability and life insurance. District contributions to ISEBA for the year ended June 30, 2006 were \$166,080.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$973,735 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(9) Construction Commitment**

The District has entered into a general contract totaling \$3,292,000 for the renovations and additions at the Aurora Heights Elementary. As of June 30, 2006, costs of \$1,992,325 had been incurred against the contract. The balance of \$973,532 remaining at June 30, 2006 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

NEWTON COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary		Budgeted Amounts		Final to
	Fund Types	Fund Type	Total	Original	Final	Actual
	Actual	Actual	Actual			Variance -
						Positive
						(Negative)
Revenues:						
Local sources	\$ 13,357,424	797,789	14,155,213	15,201,305	15,201,305	(1,046,092)
Intermediate sources	0	0	0	2,000	2,000	(2,000)
State sources	15,439,232	14,280	15,453,512	14,561,816	14,561,816	891,696
Federal sources	607,179	509,889	1,117,068	1,190,000	1,190,000	(72,932)
Total revenues	29,403,835	1,321,958	30,725,793	30,955,121	30,955,121	(229,328)
Expenditures:						
Instruction	17,622,775	0	17,622,775	17,760,000	18,400,000	777,225
Support services	8,162,460	0	8,162,460	8,256,000	8,256,000	93,540
Non-instructional programs	7,357	1,305,411	1,312,768	1,370,000	1,400,000	87,232
Other expenditures	5,921,617	0	5,921,617	8,170,613	7,500,613	1,578,996
Total expenditures	31,714,209	1,305,411	33,019,620	35,556,613	35,556,613	2,536,993
Excess(deficiency) of revenues over(under) expenditures	(2,310,374)	16,547	(2,293,827)	(4,601,492)	(4,601,492)	2,307,665
Other financing sources, net	199,571	938	200,509	2,000	2,000	198,509
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing sources	(2,110,803)	17,485	(2,093,318)	(4,599,492)	(4,599,492)	2,506,174
Balance beginning of year	11,122,579	114,617	11,237,196	10,961,441	10,961,441	275,755
Balance end of year	\$ 9,011,776	132,102	9,143,878	6,361,949	6,361,949	2,781,929

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment but had no increase in budgeted expenditures.



## OTHER SUPPLEMENTARY INFORMATION



NEWTON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2006

	<u>Student Activity</u>
ASSETS	
Cash and pooled investments	\$ 214,673
	<u>                    </u>
LIABILITIES AND FUND EQUITY	
Liabilities:	\$ 0
Fund equity:	
Fund balances:	
Unreserved, undesignated	214,673
	<u>                    </u>
TOTAL LIABILITIES AND FUND EQUITY	\$ 214,673
	<u>                    </u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2006

	<u>Student Activity</u>
REVENUES:	
Local sources:	
Other	\$ 515,730
EXPENDITURES:	
Current:	
Instruction:	
Other instruction	533,712
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(17,982)
FUND BALANCE BEGINNING OF YEAR	232,655
FUND BALANCE END OF YEAR	\$ 214,673

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Aurora Hieghts Elementary	\$ 8,892	2,233	5,173	5,952
Berg Elementary	6,903	4,894	5,622	6,175
Emerson Hough Elementary	1,446	2,046	2,537	955
Woodrow Wilson Elementary	2,991	1,428	1,078	3,341
Berg Middle School:				
Band	645	0	0	645
Orchestra	287	791	850	228
Athletics	4,102	1,448	1,330	4,220
Yearbook	726	6,712	6,786	652
Other Clubs	44,609	9,494	12,216	41,887
Basic and Beyond	306	5	0	311
Newton High School:				
Band	1,412	17,626	18,998	40
Orchestra	4,040	1,865	2,091	3,814
Athletics	54,913	255,600	259,615	50,898
FFA	37,357	17,269	15,671	38,955
Newtonia Yearbook	12,993	40,465	39,309	14,149
Other Clubs	51,033	153,854	162,436	42,451
Total	\$ 232,655	515,730	533,712	214,673

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 11,752,090	11,721,050	11,362,868	10,573,124
Tuition	389,737	453,358	412,233	473,281
Other	1,215,597	1,083,872	1,117,614	1,248,922
State sources	15,439,232	14,795,545	14,091,309	14,505,030
Federal sources	607,179	640,338	638,873	561,432
Total	<u>\$ 29,403,835</u>	<u>28,694,163</u>	<u>27,622,897</u>	<u>27,361,789</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 11,302,885	11,020,249	10,613,601	10,204,504
Special instruction	4,018,027	3,758,206	3,992,418	3,619,406
Other instruction	2,301,863	2,279,455	1,957,337	1,850,872
Support services:				
Student services	1,158,342	1,324,277	1,539,283	1,446,400
Instructional staff services	824,532	537,635	397,022	382,879
Administration services	2,492,461	2,094,346	2,217,113	2,085,889
Operation and maintenance of plant services	2,660,013	2,311,969	2,228,373	2,096,450
Transportation services	1,027,112	955,630	903,706	890,888
Non-instructional programs	7,357	18,262	19,239	48,525
Other expenditures:				
Facilities acquisitions	2,535,681	3,777,744	967,623	653,507
Long-term debt:				
Principal	1,565,000	1,540,000	740,150	710,000
Interest and other charges	847,201	881,928	679,812	708,945
AEA flow-through	973,735	938,061	946,198	1,014,197
Total	<u>\$ 31,714,209</u>	<u>31,437,762</u>	<u>27,201,875</u>	<u>25,712,462</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATIONS (NON-CASH)	10.550	FY 06	\$ 64,902
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	78,545
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	366,442
			<u>444,987</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	4725-G	<u>239,104</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATES GRANTS	84.186	FY 06	<u>13,297</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 06	<u>11,042</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 06	<u>100,134</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 06	<u>19,716</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 06	<u>30,502</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 06	<u>176,341</u>
TOTAL			<u>\$ 1,100,025</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Newton Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

### Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Newton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Newton Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 8, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newton Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newton Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

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Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Newton Community School District and other parties to whom Newton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Newton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

November 8, 2006

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of  
Newton Community School District:

#### Compliance

We have audited the compliance of Newton Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Newton Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Newton Community School District's management. Our responsibility is to express an opinion on Newton Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Newton Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Newton Community School District's compliance with those requirements.

In our opinion, Newton Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

#### Internal Control Over Compliance

The management of Newton Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Newton Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts

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and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Newton Community School District and other parties to whom Newton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be use by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

November 8, 2006

NEWTON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable condition in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Clustered Programs
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Newton Community School District qualified as a low-risk auditee.

NEWTON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage as part of the Expense Reimbursement policy. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We will review procedures in place and make certain that proper documentation for credit card purchases will be kept in the future.

Conclusion - Response accepted.

NEWTON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

NEWTON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

- IV-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, did not exceed the amount budgeted.
- IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-06 Business Transactions - No business transactions between the District and District officials were noted.
- IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.